Prince Edward Island
CANADA

Civil Service Superannuation Fund

Annual Report 2010-2011

The Honourable Barbara Hagerman
Lieutenant Governor of Prince Edward I
PO Box 846
Charlottetown, PE C1A 7L9

May it Please Your Honour:

In accordance with section 6 of the *Civil Service Superannuation Act*, I am pleased to present to you the Annual Report of the Province of Prince Edward Island Civil Service Superannuation Fund for the fiscal year ended March 31, 2011.

Respectfully submitted,

Wes Sheridan,
Minister of Finance and Municipal Affairs

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Introduction

The Civil Service Superannuation Fund (CSSF) was established in 1945 and provides retirement income to members and dependants of deceased members, in accordance with the *Civil Service Superannuation Act* (CSSA).

Plan Description

The CSSF is a contributory, defined benefit pension plan financed by contributions from participating employers and employees, and by investment earnings from the Master Trust Investment Fund.

Contributions – In 2010-2011, members of the plan contributed the following:

- 7.09 percent of pensionable earnings up to the Yearly Maximum Pensionable Earnings (YMPE), and
- 8.75 percent of pensionable earnings in excess of the YMPE.

The YMPE was $47,200 for 2010 and $48,300 for 2011.

The employer matches contributions made by the members on a bi-weekly basis.

Membership – The general criteria for membership to the CSSF is that an employee must be permanent with an approved participating employer.

Unreduced Pension – An unreduced monthly pension is payable for life to a member who meets one of the criteria below:

- has attained the age of 60 with two or more years of pensionable service;
- has attained the age of 55 with 30 or more years of pensionable service.

The benefit is calculated as 2.0 percent multiplied by the years of pensionable service, multiplied by the average of the three highest years of pensionable earnings. Please note that for salary below the Canada Pension Plan's YMPE, the 2.0 percent benefit is comprised of:

a) a 1.3 percent life-time benefit, and

b) a 0.7 percent temporary bridge benefit, payable from the date of retirement to age 65.

Early Retirement – Eligible members can opt for an early retirement pension benefit as early as age 55. In these cases, the pension amount is reduced by the lesser of:

a) 3.0 percent for each year prior to age 60, or

b) 3.0 percent for each year prior to attaining 30 years of pensionable service.

It should be noted that the early retirement reduction is applied to both the lifetime and bridge benefits and remains in effect for the entire duration.

Benefits on Termination – A member in the CSSF becomes vested after two years of continuous service in the plan.

a) Vested members are eligible for either a deferred pension or a refund of employee contributions plus interest.

b) Non-vested members are eligible for a refund of employee contributions plus interest.

Inflation Protection – Pensions are increased by the change in the Consumer Price (all items) Index for Canada, to a maximum of 6.0 percent, on the first day of April of each year. The pension payment received upon retirement and the value of a deferred pension benefit are both indexed annually under the CSSF. Indexation applied at April 1, 2010 was 0.3 percent.

Death Benefits – The CSSF provides for both spousal and dependant benefits to eligible survivors of vested members.

Fund Administration

Administration of the CSSA is assigned to the Pensions and Benefits Section of the Office of the Comptroller within the Department of Finance and Municipal Affairs. The Department of Finance and Municipal Affairs provides investment management support for the Province of Prince Edward Island Master Trust.

The CSSF's assets are managed independently by professional fund managers. The fund managers responsible for the CSSF's investments as at March 31, 2011, were:

1) Baillie Gifford Overseas Limited;

2) Beutel, Goodman & Company Limited;

3) Burgundy Asset Management Limited;

4) Franklin Templeton Investments Corporation;

5) Lazard Asset Management LLC;

6) McLean Budden Limited; and

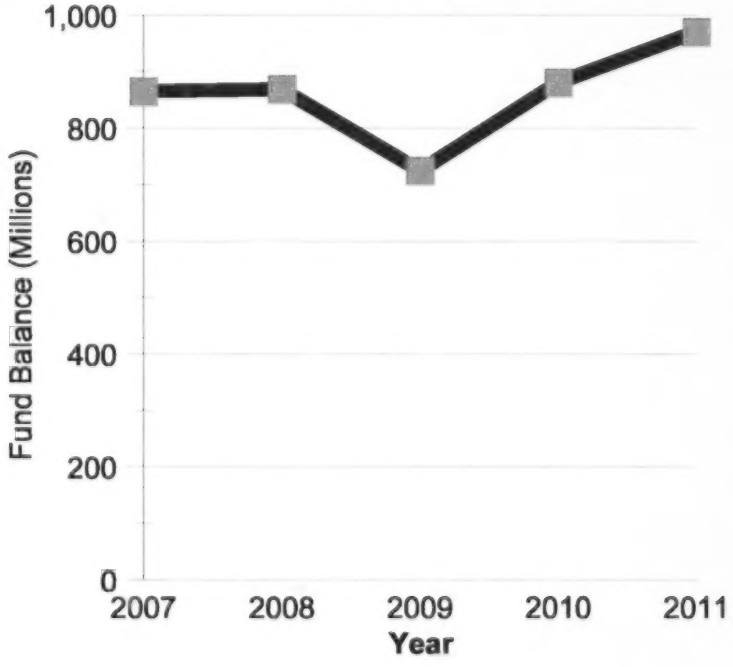
7) State Street Global Advisors.

The total asset balance of the CSSF at March 31, 2011 was approximately $971 million, up from $880 million in 2010.

Diagram 1 shows the CSSF total asset balance from 2007 - 2011.

Diagram 1

CSSF Total Asset Balance



Employers – There are 16 remitting payrolls in the CSSF with a total of 6,767 full- and part-time members at March 31, 2011. Health PEI is the largest employer with 3,900 active contributors, the Province of PEI is the second largest employer with 2,403 active contributors, three insurance companies contribute for 181 members on long-term disability claims and 283 contributors are employed with 11 other agencies. Additionally, there are approximately 362 deferred members. **Table 1** lists employers and the corresponding number of members.

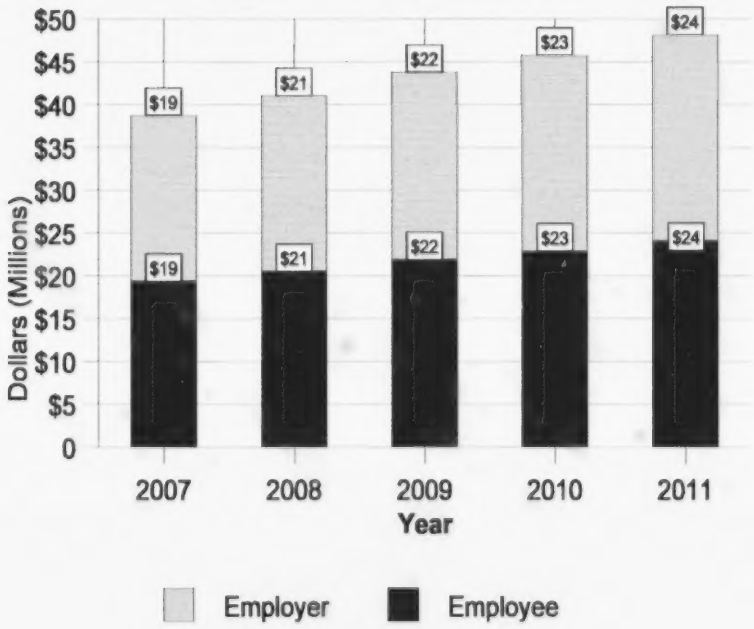
Table 1
Employers and Total Members

Employer	Total Members
Province of P. E. I. Departments	2,403
Health PEI	3,900
Innovation PEI	90
Grain Elevators	9
Health Association	3
Island Regulatory and Appeals Commission (IRAC)	22
Island Waste Management Corporation (IWMC)	44
Lending Agency	11
PEI School Boards	16
Potato Board	10
Status of Women	3
Union of Public Sector Employees (UPSE)	9
Workers' Compensation Board (WCB)	66
Great West Life	80
Manulife Ltd	94
Sunlife Ltd	7
Members	**6,767**

Regular Contributions – Regular contributions are made to the CSSF via payroll deductions. For 2010-2011, the regular contributions from both the employer and employees combined were approximately $48.0 million, up from $46.0 million in 2009-2010. Other contributions include special payments from the Province, payments for prior service, and transfers in from other plans via reciprocal agreements.

Diagram 2 depicts, by year, the regular employer and employee contributions made to the CSSF.

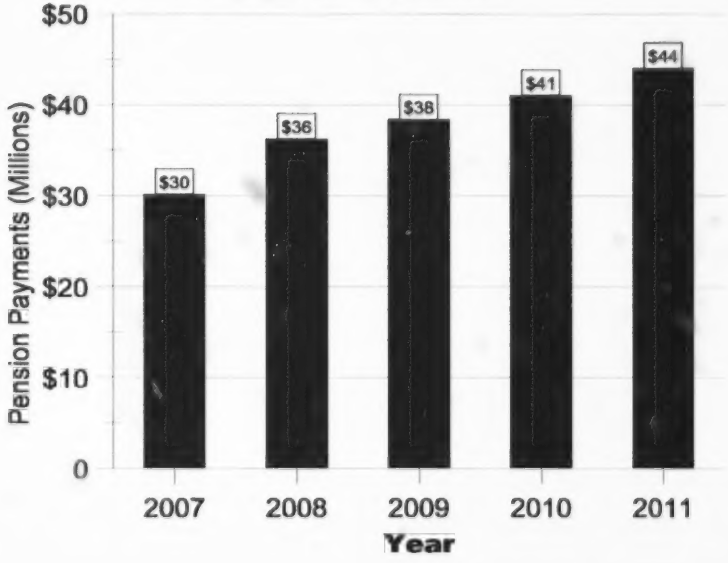
Diagram 2
Regular Contributions



Special Contribution – To reduce the unfunded liability of the CSSF, the Province of Prince Edward Island agreed to invest $52 million in the Fund. The investment was in the form of a $52 million promissory note from the Province of Prince Edward Island to the Fund. This note is receivable in ten equal annual installments of $5.2 million beginning October 15, 2006, plus interest at the rate of 4.41 percent per annum. Interest is to be paid semi-annually on October 15 and April 15.

Pension Payments – Annual pension payments in 2010-2011 were approximately $44 million. This is shown in **Diagram 3**. In the fiscal year 2010-2011, approximately 92 percent of the pension payroll was paid to members and the remaining 8 percent was paid out as spousal and dependant benefits.

Diagram 3
Pension Payments



Pensioners – The number of persons receiving pension was 2,942 at March 31, 2011. **Table 2** outlines the number of new pensioners, their average age and average annual gross pension for the three most recent fiscal years ending March 31st.

Table 2
Number of New Pensioners with Average Age and Average Annual Pension

Fiscal Year	No. of New Pensioners	Average Age	Average Annual Pension
2010-2011	188	60.08	$ 21,880
2009-2010	154	59.39	$ 21,857
2008-2009	129	59.39	$ 20,168

Table 3 outlines the categories of pension recipients and the average annual pension for each category at March 31, 2011.

Table 3
Pension Categories and Average Annual Pension

Category	Number of Persons		Average Annual Pension	
	2011	2010	2011	2010
Members	2,548	2,433	$ 16,701	$ 16,139
Spousal	383	373	$ 9,503	$ 9,447
Dependants	11	11	$ 4,966	$ 5,170
Total Pensions	**2,942**	**2,817**		

Actuarial Requirement – Federal legislation requires that an actuarial valuation be performed once every three years to evaluate the funding status of the CSSF. Actuarial valuation reports require best estimate assumptions about future events to determine the liabilities of the fund as of the valuation date. The actual assets of the fund, as of the valuation date, are then compared to the liabilities to determine the plan's funding status.

The most recent actuarial valuation was completed as of April 1, 2008. This valuation was based on the following membership data:

1) 6,586 Active Members
   Average Salary of $42,370
   Average Age of 46.5 Years

2) 343 Deferred Members
   Average Annual Pension of $7,530
   Average Age of 48.6 Years

3) 2,573 Retirees
   Average Annual Pension of $14,563
   Average Age of 69.5 Years

The value of the plan assets as at April 1, 2008, was $866,541,000, which represents 87 percent of the actuarial liability of $993,445,000. Table 4 details the statement of financial position as at April 1, 2008.

Table 4

Going-Concern Financial Position

April 1, 2008

Value of Assets		
Market Value	$ 866,541,000	
	Actuarial Liability	**Percentage of Total Liabilities**
Active Members	$ 552,922,000	*56%*
Deferred Members	21,621,000	*2%*
Retired Members and Beneficiaries	418,902,000	*42%*
Total	**$ 993,445,000**	
Actuarial Surplus (Unfunded Liability)	$(126,904,000)	
Funding Ratio	87.2%	

Updated valuation results (April 1, 2011) will be available in the 2011-2012 annual report.

Highlights for 2010-2011

Act/Regulations

There were no additions, deletions or changes to the Act/Regulations during the fiscal year.

Administration Initiatives

Pension statements for calendar year ended December 31, 2009 were issued December 2010. A total of approximately 6,300 statements were issued to members.

Work continues on collecting and verifying historical data for the employees of crown corporations, agencies, boards and commissions who participate in the CSSF. Members who are employed by the Workers' Compensation Board of Prince Edward Island received their first pension statement this fiscal. The statement included pension information to the end of December 2009.

Investment Management

The largest contributor to the growth of CSSF assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The CSSF, MLA Pension Fund and the Teachers' Superannuation Fund participate in the Master Trust. In 2010-2011, approximately 66 percent of the funds in the Master Trust were assets of the CSSF.

As of March 31, 2011, the rate of return of the Master Trust was as follows:

- Annual rate of return: 10.2 percent
- Ten year rate of return: 5.2 percent

CSSF Assets

During 2010-2011, there was a net increase to CSSF assets of approximately $90 million.

Table 5 shows the receipts and income, by source, which totalled approximately $140 million.

Table 5
Receipts and Income

Type	Amount
Employee Contributions	$ 24,058,675
Employer Contributions	24,058,675
Transfers From Other Plans	758,315
Purchased Service	794,956
Other Income	1,296,505
Investment Income	27,316,922
Market Value Increase	62,154,703
Total	**$ 140,438,751**

Table 6 shows the expenditures for 2010-2011, which totalled approximately $50 million.

Table 6
CSSF Expenditures

Type	Amount	Percentage of Expenditures
Benefits Paid	$ 44,389,613	
Refunds	634,722	
Transfers	812,462	
Total Benefit Expenditures	**$ 45,836,797**	**91.17%**
Benefit Administration	$ 494,492	
System Fees	119,801	
Investment Administration	145,305	
Pension Payroll TPA fees	18,712	
Total Administrative Expenses	**$ 778,310**	**1.55%**
Consulting Fees	145,358	
Total Consulting Fees	**$ 145,358**	**0.29%**
Investment Manager Fees	$ 3,242,766	
Monitoring Fees	162,587	
Custodial Fees	111,834	
Total Investment Expenses	**$ 3,517,187**	**6.99%**
Total	**$ 50,277,652**	**100.00%**

Administrative Advisory Committee

The Administrative Advisory Committee provides a forum for the purposes of reviewing issues which may arise in the administration of the plan and providing advice to the Minister of Finance and Municipal Affairs on such issues. As of March 31, 2011, the committee had ten members as follows:

No of Members	Member	
1	*Chairperson* - Deputy Minister of Finance and Municipal Affairs	Doug Clow
1	International Union of Operating Engineers	Bill Bylhouwer
1	PEI Nurses' Union	Blair MacDonald
1	Canadian Union of Public Employees	Lane MacLaren
2	Union of Public Sector Employees	Shelley Ward Jim Beaton
1	Department of Finance and Municipal Affairs	Scott Stevens
2	Health PEI	Muriel MacLeod Denise Lewis-Fleming
1	PEI Public Service Commission	Allan O'Keefe

Master Trust Investment Advisory Committee

The Master Trust Investment Advisory Committee provides advice to the Minister of Finance and Municipal Affairs on the following items:

- protection of the principal assets of the Master Trust;
- monitoring of costs;
- recommendations on investment fund asset mix;
- review of investment fund and fund manager performance standards; and
- compliance with both federal and provincial requirements relating to ownership of foreign equities.

At March 31, 2011, the following were members of the Master Trust Investment Advisory Committee:

Chairperson - Deputy Minister of Finance and Municipal Affairs	Doug Clow
Prince Edward Island Teachers' Federation	Michel Plamondon
Union of Public Sector Employees	Shelley Ward Donalda Docherty
International Union of Operating Engineers	Gerald Poirier
Canadian Union of Public Employees	Leonard Gallant
PEI Nurses' Union	Susan Marchbank
Provincial Government	Terry Hogan Gordon MacFadyen Scott Stevens
Member of the Legislative Assembly	Buck Watts
Ex Officio outside designates Fiscal Agents	Tim Van Alstyne, *RBC Dominion Securities Inc.* Bill Hastie, *Scotia Capital Inc.*
Ex Officio outside designates Consultants	Paul Malizia and Tony Politano, *Aon Hewitt*

Audit Requirements

In accordance with section 13 of the *Audit Act*, the financial statements have been examined by the Office of the Auditor General whose report is included in the appendix of this annual report.

Contact Information

For further information concerning the administration of the ***Civil Service Superannuation Act***, please contact:

Pensions and Benefits
Department of Finance and Municipal Affairs
Sullivan Building, 16 Fitzroy Street
PO Box 2000
Charlottetown, PE C1A 7N8
Telephone: (902) 368-4200
Fax: (902) 620-3096

Terry Hogan, Manager
Crystal Burrows, Operations Supervisor
Pamela MacEachern, a/Pension Information Officer

For further information concerning the **Master Trust Fund**, please contact:

Alan Silliker, Manager
Investments and Banking
Department of Finance and Municipal Affairs
Tel: (902) 569-7666

Appendix

Audited Financial Statements
for
2010-2011

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

FINANCIAL STATEMENTS

MARCH 31, 2011

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

AUDITOR'S REPORT

Honourable Wesley J. Sheridan
Minister
Department of Finance and Municipal Affairs
Province of Prince Edward Island

I have audited the financial statements of the **Prince Edward Island Civil Service Superannuation Fund**, which comprise the statement of net assets available for benefits as at March 31, 2011, and the statement of changes in net assets available for benefits for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles for the private sector and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2011, and its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the private sector.

Colin Younker, CA
Auditor General

Charlottetown, Prince Edward Island
June 29, 2011

PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT MARCH 31, 2011

	2011 $	2010 $
ASSETS		
Current Assets		
Cash	1,416,820	1,617,563
Receivables		
Contributions receivable - employee	1,819,079	1,518,275
- employer	2,301,308	1,488,203
Other	655,327	330,840
Accrued interest	526,050	631,260
Current portion of note receivable	5,200,000	5,200,000
	11,918,584	10,786,164
Investments (Notes 2(b), 3)	938,123,170	843,652,206
Note receivable (Note 5)	20,800,000	26,000,000
	958,923,170	869,652,206
Total Assets	970,841,754	880,438,370
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	2,194,449	2,002,109
Income tax payable	544,087	509,161
Other remittances payable	150,001	134,982
	2,888,537	2,646,252
Net assets available for benefits	967,953,217	877,792,118

(The accompanying notes are an integral part of these financial statements.)

Approved by:

Minister of Finance and Municipal Affairs

PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED MARCH 31, 2011

	2011 $	2010 $
INCREASE IN ASSETS		
Investment income (Note 3(a))		
Interest	13,691,598	14,612,160
Dividends	13,625,324	10,321,793
Change in fair value of investments	62,154,703	129,175,416
	89,471,625	154,109,369
Other income		
Promissory note interest	1,270,710	1,500,030
Bank interest	25,795	8,691
	1,296,505	1,508,721
Contributions		
Employee	24,058,675	22,870,111
Employer	24,058,675	22,869,899
Transfers from other plans	758,315	217,323
Purchased service	794,956	950,146
	49,670,621	46,907,479
Total increase in assets	140,438,751	202,525,569
DECREASE IN ASSETS		
Operating expenses (Note 6)	4,440,855	3,649,037
Benefits paid	44,389,613	41,335,745
Refunds	634,722	537,950
Transfers to other plans	812,462	1,107,667
Total decrease in assets	50,277,652	46,630,399
Increase in net assets	90,161,099	155,895,170
Net assets available for benefits, beginning of year	877,792,118	721,896,948
Net assets available for benefits, end of year	967,953,217	877,792,118

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

1. Plan Description

The following description of the Prince Edward Island Civil Service Superannuation Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Civil Service Superannuation Act* and *Regulations*.

a) General

The Plan is a contributory defined benefit plan covering members as defined in the *Civil Service Superannuation Act*.

b) Contributions

Under the Plan, employees and employers make equal contributions amounting to 7.09 percent of that part of the members' salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the *Canada Pension Plan Act* and 8.75 percent on the amount that exceeds the YMPE.

Effective January 1, 2010, members whose employment is excluded from the *Canada Pension Plan Act* and is not subject to that *Act*, will no longer contribute 8.75 percent of their salary as previously arranged. Like all members, they will contribute at the same rates.

c) Retirement Benefits

A member who has attained the age of 60 and has completed at least 2 years of service or has attained the age of 55 and has completed 30 years of pensionable service is entitled to an unreduced pension which is payable in equal monthly installments.

The annual amount of the pension is equal to 2 percent of the average salary of the member in the three year period of pensionable service during which such average salary is highest, multiplied by the number of years of pensionable service. When the member reaches the age of 65 (or if he or she is 65 or over at retirement) the amount of pension described above is integrated with the Canada Pension Plan. The pension is reduced by 0.7 percent of the average salary up to the average YMPE during the three year period over which the average salary has been computed, multiplied by the number of years of the member's pensionable service after July 1, 1966, or July 1, 1972, depending on the election of the member and payment of the required contributions to be eligible for the smaller offset.

1. **Plan Description (continued...)**

c) Retirement Benefits (continued...)

Reduced benefits are available at age 55 with 2 years pensionable service. The pension for a member who retires prior to age 60 (and who is not entitled to an unreduced pension) is calculated as described in the previous paragraph but then is reduced by 0.25 percent for each month by which the early retirement date precedes the member's earliest unreduced retirement age. It is calculated by using the lesser of the number of months between the date of actual retirement and the date the member would attain age 60 or the number of months between the date of actual retirement and the date the member would have at least thirty years of service.

The above formula determines the amount of a member's initial pension at retirement. In subsequent years, the amount of a member's pension is increased in line with increases in the Consumer Price Index. The increase in any one year is limited to no more than 6 percent.

d) Death Benefits

On the death of a member prior to completing 2 years of pensionable service, or after completing 2 years of service but leaving no surviving spouse or dependant children, the member's contributions accumulated with interest will be refunded. If a member dies prior to retirement but after completing 2 years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60 percent of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of 4 children, until the child attains the age of 18 or until the age of 21 if the child is attending school full-time.

e) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest, or
- if the member has completed at least 2 years of service, a deferred pension commencing when the member attains the age of 60.

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension rights to those other plans or transfer contributions and service from those other plans to increase pension benefits under the Plan.

1. **Plan Description (continued...)**

f) Marriage Breakdowns

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

g) Income Tax

The Fund is a Registered Pension Plan as defined under the federal *Income Tax Act* and is not subject to taxation.

2. **Summary of Significant Accounting Policies**

Basis of Accounting

These financial statements are prepared on a going concern basis and in accordance with Canadian generally accepted accounting principles for the private sector and presents the aggregate financial position of the Fund as a separate financial reporting entity independent of the Province of Prince Edward Island and the Plan members. They are prepared to assist plan members and others in reviewing the activities of the Fund for the fiscal period but do not portray the funding requirements of the Plan or the benefit security of individual members. The following accounting policies are considered significant.

a) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the transaction date. The fair values of foreign investments and cash held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in the current period change in fair value of investments.

b) Investments

(i) Investments are represented by units of participation in a master trust. A master trust is a pool of assets into which contributions from pension plans are deposited for investing. The pro-rated share of each of the assets, liabilities, revenues and expenses of the Prince Edward Island Master Trust (the Master Trust) are allocated by units of participation.

2. **Significant Accounting Policies (continued...)**

b) Investments (continued...)

(ii) Investments are valued at fair value, which is based on quoted or estimated market value.

Changes in the market value of investments, including realized and unrealized gains resulting from changes in foreign exchange, are reflected in the financial statements as a change in the fair value of investments.

(iii) Derivative contracts held by the Fund are stated at fair value and are valued using quoted market indices. Realized and unrealized gains or losses from derivative contracts are included in the change in fair value of investments.

(iv) Investment transactions are recognized on the transaction date. Distributions are recognized on the record date.

(v) Investments include receivables and payables at March 31, 2011, for interest, dividends and settled derivative contracts.

c) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

d) Use of Estimates and Measurment Uncertainty

The preparation of financial statement in conformity with Canadian generally accepted accounting standards for the private sector requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include investments, accrued interest, accrued liabilities and actuarial assumptions.

e) Financial Instruments

The Fund's financial instruments include cash, contributions and other receivables, accrued interest, notes receivables, investments, accounts payable and accrued liabilities, income taxes payable and other remittances payable.

2. **Significant Accounting Policies (continued...)**

e) Financial Instruments (continued...)

Due to their short-term nature, the Fund's short-term financial instruments, consisting of cash, contributions and other receivables, accounts payable and accrued liabilities are carried at cost which approximate their fair values. Investments are carried at fair values as described in Note 2(b) and are subject to interest, market, credit, currency, price and liquidity risks as described in Note 3 (c).

f) Future Accounting Pronoucements

The Fund intends to adopt the recommendations of the Canadian Institute of Chartered Accountants Section 4600 which will replace Section 4100 for financial statements relating to fiscal years beginning on or after January 1, 2011. Management is reviewing these new standards and assessing the impact on the financial statements.

g) Adoption of New Accounting Standards

(i) EIC 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee (EIC) issued Abstract No. 173 (EIC - 173). The EIC recommends an entity to take into account its own credit risk and that of the relevant counter-party(s) when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC had no impact on the Fund's financial statements.

(ii) Section 3862 - Financial Instruments - Disclosures

Effective April 1, 2009, the Fund adopted the recent amendments to the Canadian Institute of Chartered Accountants Section 3862, Financial Instruments - Disclosures.

These amendments establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

2. **Significant Accounting Policies (continued...)**

g) Adoption of New Accounting Standards (continued...)

(ii) Section 3862 - Financial Instruments - Disclosures (continued...)

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgement or estimation.

3. **Investments**

a) Investments

Investments consist of units held in the Master Trust. There were 744,890.375 (2010 - 702,647.671) units held in the Master Trust as of March 31, 2011, with a fair value of $1,259.41 (2010 - $1,200.68) per unit.

Investments of the Master Trust consist of the following listed assets:

	2011 $	%	Income for the Year* $	2010 $	%	Income for the Year* $
Canadian short-term investments	26,969,381	1.9	92,339	12,982,069	1.0	44,523
Other liquid assets	1,626,244	0.2	4,359,368	384,448	-	4,548,505
Bonds, debentures and notes	511,751,736	34.4	30,037,775	500,023,960	38.7	21,920,017
Canadian equity securities	381,021,836	25.7	65,962,557	337,744,622	26.1	182,155,399
Foreign equity securities	503,060,194	33.8	35,367,064	429,764,338	33.2	16,791,501
Currency forwards	(301,932)	-	1,420,724	5,415,253	0.5	7,884,820
Accrued income	5,800,044	4.0	-	5,108,212	0.5	-
Total	1,492,917,503	100.0	137,239,857	1,293,402,902	100.0	232,882,765
Fund's pro-rated share	65.5066%		65.1935%	65.2273%		66.1747%
Fund's investments**	978,123,518		89,471,603	843,661,791		154,109,471

* Includes realized losses of $30.6 million ($102.7 million - 2010) and unrealized gains of $64.6 million (losses of $298.5 million - 2010).

3. **Investments (continued...)**

a) Investments (continued...)

** Note the totals will not recalculate to the financial statement due to rounding in the pro-rated share.

Investments include amounts which investment managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

	2011 $	2010 $
Beutel, Goodman & Company Ltd.	19,199,604	14,012,555
Lazard Ltd.	154,184,874	124,386,385
Baille Gifford Overseas Ltd.	170,040,365	137,825,001
Total	343,424,843	276,223,941
Fund's pro-rated share	65.6068%	65.2273%
Fund's pooled funds	225,310,050	180,173,419

b) Derivative Contracts

Derivative contracts are financial contracts, the value of which is "derived" from the value of underlying assets or exchange rates. Derivatives provide flexibility in implementing investment strategy.

Forward contracts are used to manage currency exposure and mitigate risk with respect to investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of the outstanding transactions and serves as the basis upon which the return and the market value of the contract is determined.

The Fund is exposed to credit related losses in the event of non-performance by counter-parties to derivative financial instruments. In order to mitigate this risk, the Fund deals only with highly rated counter-parties with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counter-parties failed completely to perform under the contracts and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counter-parties, less any prepayment collateral or margin received, as at the reporting date.

3. **Investments (continued...)**

b) Derivative Contracts (continued...)

The following provides details of derivative contracts outstanding as of March 31, 2011:

Notional Amount $	Fair Value $
186,508,169	(301,932)

c) Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market price fluctuations, credit risk and liquidity risk. The Fund has set formal goals, policies and operating procedures that establish an asset mix among equity and fixed income, required diversification of investments within categories and set limits on the size of exposure to individual investments and counter-parties. Risk and credit committees have been created that regularly monitor the risks and exposures of the Fund. Plan sponsor oversight, procedures and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

(i) Interest Rate Risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes, as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and liabilities.

Assuming all other variables are held constant, a one percent increase (decrease) in nominal interest rates would decrease (increase) the fair value of the Fund by $18.6 million.

Value of Fixed Income Securities $	Weighted Average Duration	Percent Change %	Impact on Fair Value of the Fund $	Fund's Pro-rated Share %	Pro-rated Impact on Fair Value of the Fund $
495.0 m	5.72 yrs	1	28.3 m	65.6068	18.6 m

3. **Investments (continued...)**

c) **Investment Risk Management (continued...)**

(ii) Price Risk

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk includes interest rate and foreign currency risk which are also discussed in this note. Assuming all other variables are held constant, a ten percent increase (decrease) in market values of all public equities would increase (decrease) the fair value of the Fund by $58.0 million.

Value of Public Equities	Percent Change	Impact on Fair Value of the Fund	Fund's Pro-rated Share	Pro-rated Impact on the Fair Value of the Fund
$	%	$	%	$
884.1 m	10	88.4 m	65.6068	58.0 m

(iii) Credit Risk

Credit risk is the risk of loss in the event the counter-party to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk associated with the Fund is regularly monitored and analyzed through risk and credit committees.

The fund is exposed to credit risk from interest earning investments at March 31, 2011:

	2011 ($ millions)
Federal Government	207.5
Provincial Government	78.6
Municipal Government	2.3
Corporate	239.6
Total investment credit risk exposure	528.0
Fund's pro-rated share	65.6068%
Fund's investment credit risk exposure	346.4
Provincial Government Promissory Note	20.8
Fund's total credit risk exposure	367.2

3. **Investments (continued...)**

c) Investment Risk Management (continued...)

(iii) Credit Risk (continued...)

The Fund participates in a Securities Lending Program whereby it lends securities for a fee to approved borrowers. To alleviate the credit risk, borrowers must provide collateral with a value of 105 percent of the value of the securities lent. The market value of the collateral is monitored by the custodian at least daily to ensure that the 105 percent threshold is maintained. In addition, security loans are allocated across various borrowers within the program and the Fund holds indemnification coverage, which mitigates the credit risk and the market risk on the collateral.

	2011 $	2010 $
Total security loans outstanding	264,052,484	213,287,841
Fund's pro-rated share	65.6068%	65.2273%
Fund's security loans outstanding	173,236,385	139,121,900
Total collateral held	277,281,857	223,964,757
Fund's pro-rated share	65.6068%	65.2273%
Fund's collateral held	181,915,753	146,086,164

(iv) Foreign Currency Risk

Foreign currency risk arises from the holding of investments denominated in foreign currencies. A policy of hedging from 30 percent up to 70 percent of the currency exposure is used to mitigate this risk.

The Fund's unhedged currency exposure from net investment assets as at March 31, 2011, is summarized in the following table:

	2011 ($ millions)
Currency	
Brazil	15.9
Switzerland	12.0
Euro Zone	33.5
United Kingdom	38.6
Hong Kong	19.0
Japan	28.2
Sweden	10.3
United States	105.2
Other	43.2
Total	303.9
Fund's pro-rated share	65.6068%
Fund's foreign currency exposure	199.4

3. **Investments (continued...)**

c) Investment Risk Management (continued...)

(iv) Foreign Currency Risk (continued...)

After the effect of hedging, and without change in all other variables, a 10 percent increase (decrease) in the Canadian dollar against all other currencies would decrease (increase) the fair value of the Fund by $20.0 million.

(v) Liquidity Risk

Liquidity risk is the risk of not meeting the cash obligations of the Fund in an efficient manner. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund and planned dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund.

The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the cash portfolios are consistent with the needs of the Fund.

d) Fair Value Disclosure

Fund assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA 3862. See Note 2 (g) for a discussion of the Fund's policy regarding this hierarchy. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at March 31, 2011.

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Canadian short-term investments	10,674,434	16,284,947	-	26,959,381
Other liquid assets	1,626,047	-	197	1,626,244
Bonds, debentures and notes	-	495,005,522	16,746,214	511,751,736
Canadian equity securities	381,021,836	-	-	381,021,836
Foreign equity securities	503,060,194	-	-	503,060,194
Currency forwards	-	(301,932)	-	(301,932)
Totals	896,382,511	510,988,537	16,746,411	1,424,117,459
Accrued income				5,800,044
Total financial assets at fair value				1,429,917,503
Fund's pro-rated share				65.6068%
Fund's investments				938,123,116

3. Investments (continued...)

e) MAV II Notes

The Master Trust holds MAV II notes (originally bank-sponsored asset backed commercial paper) in its bonds, debentures and notes portfolios. The carrying value of the MAV II notes held at March 31, 2011, was $16,745,000 (or $23,356,000 face value less a $6,610,000 discount). Carrying value of the MAV II notes are calculated using management's best estimates based on the available information reflecting an illiquid market.

The carrying value assigned to the MAV II notes held by the Master Trust may differ from the actual value realized on any sale or other liquidation. As a result of these uncertainties, the reported value may change materially in subsequent periods.

4. Obligation for Pension Benefits for Accounting Purposes

The present value of accrued pension benefits was determined using the projected unit credit method pro-rated on service and best estimate assumptions. The most recent actuarial valuation for accounting purposes prepared by the actuarial consulting firm Morneau Sobeco, disclosed an unfunded liability of $45,800,000 as at April 1, 2008.

The estimated present value of accrued benefits as of March 31, 2011, the principal components of changes in actuarial present values during the year, and the estimated unfunded liability were as follows:

	2011 $	2010 $
Estimated present value of accrued benefits, beginning of year	1,004,478,830	973,335,670
Interest accrued on benefits	76,273,304	71,384,992
Benefits accrued	34,626,093	33,472,000
Increase due to purchases of service	1,553,272	1,167,468
Benefits paid	(45,836,798)	(42,969,598)
Changes due to		
Actuarial valuation data adjustment	-	(4,384,000)
Actuarial projections	36,845,658	(27,527,702)
Estimated present value of accrued benefits, end of year	1,107,940,359	1,004,478,830
Net assets available for benefits	967,953,217	877,792,118
Unfunded liability	139,987,142	126,686,712

4. Obligation for Pension Benefits for Accounting Purposes (continued...)

The economic assumptions used in determining the actuarial value of accrued pension obligation for accounting purposes were developed by reference to expected long-term market conditions. For 2010 and 2011, projections were performed for the Civil Service Superannuation Fund to reflect changes to the discount rate and expected rate of return assumptions. Significant actuarial assumptions used in the projections for 2011 were:

Basic salary escalation rate (excluding promotional increases)	2.50%
Discount rate used to determine accrued obligation	7.37%
Expected rate of return on plan assets	7.37%
Pension cost of living increases	2.40%

The Consolidated Financial Statements of the Province record the obligation using the method of accounting disclosed above.

5. Funding Policy

In accordance with the *Civil Service Superannuation Act*, employees are required to contribute to the Plan as described in Note 1(b). Employers match employee contributions to the Fund. Under Section 5 of the *Civil Service Superannuation Act*, payments out of the Fund are guaranteed by the Province of Prince Edward Island.

As a result of an unfunded liability at April 1, 2005, the Province of Prince Edward Island made a special contribution through the signing of a $52,000,000 promissory note. The note, which is held by the Fund, is receivable in ten equal annual installments of $5,200,000 beginning October 15, 2006. Interest on the note is accrued at a rate of 4.41 percent per annum and is receivable semi-annually on April 15 and October 15. Prior to October 15, 2015, any monies owing may be suspended on six months prior notice if the Minister of Finance and Municipal Affairs deems the funded level, excluding any outstanding balances on promissory notes, to be 90 percent on a going concern basis as defined in the Province of Prince Edward Island Funding Policy for Government Sponsored Registered Pension Plans. Interest will be accrued to the date of any suspension implemented. Any monies suspended prior to and including October 15, 2015, are no longer due and owing. Provided no further monies are payable, the promissory note shall be deemed paid in full.

The following is a schedule of principal and interest payments as disclosed in the promissory note:

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MARCH 31, 2011

5. Funding Policy (continued...)

	Principal Payments	Interest Payments	
Date of Payment	Principal Payment $	October 15 $	April 15 $
October 15, 2006	5,200,000	-	1,031,940
October 15, 2007	5,200,000	1,031,940	917,280
October 15, 2008	5,200,000	917,280	802,620
October 15, 2009	5,200,000	802,620	687,960
October 15, 2010	5,200,000	687,960	573,300
October 15, 2011	5,200,000	573,300	458,640
October 15, 2012	5,200,000	458,640	343,980
October 15, 2013	5,200,000	343,980	229,320
October 15, 2014	5,200,000	229,320	114,660
October 15, 2015	5,200,000	114,660	-
	52,000,000	5,159,700	5,159,700

Since the promissory note was not signed until March 30, 2007, but provided for a principal payment as of October 15, 2006, additional interest was paid on the scheduled principal payment of October 15, 2006, as the first payment was not made until April 16, 2007.

An objective of the funding policy is to be 90 percent funded at each actuarial valuation date. If the funded level is less than 90 percent, the policy requires a special contribution to be made by the Province to bring the Fund to a 90 percent funded level. The most recent going concern actuarial valuation for funding purposes, dated April 1, 2008, determined an unfunded liability of $126,900,000. At the valuation date, the funded level was 90 percent when considering net assets, promissory notes and the present value of excess contributions. Therefore, no additional special contributions were required.

6. Operating Expenses

The Fund is charged with administrative and operating expenses. The following is a summary of these expenses:

		2011 $	2010 $
Administration expenses	- pension section	633,005	562,341
	- investment section	145,305	120,919
		778,310	683,260
Consulting fees		145,358	307,309
Investment expenses		3,517,187	2,658,468
Total		4,440,855	3,649,037

7. Related Party Transactions

The Province of Prince Edward Island is the sponsor of the Plan and a participating employer. The Province guarantees all payments owing by the Fund and has committed to the funding requirements as defined by the Funding Policy (Note 5). As a participating employer, the Province matches regular bi-weekly employee and eligible prior period service contributions. Contributions receivable from the Province as at March 31, 2011, totalled $1,311,489 (2010 - $1,438,362).

The Province provides pension and investment administration services to the Fund. A portion of the Province's costs relating to these services is recovered annually from the Fund. Costs recovered for the Pension section totalled $480,450 (2010 - $460,110) and recoveries related to the investment section totalled $145,305 (2010 - $120,919). Other costs recovered by the Province totalled $119,802 (2010 - $64,111).

Total amounts payable to the Province at March 31, 2011, was $766,207 (2010 - $586,695).

8. Subsequent Event

Subsequent to year-end, the asset mix of the Master Trust was expanded to include real estate investments. In April 2011, approximately $35 million was transferred from Canadian equities to Canadian real estate investments.

9. Prior Period Comparatives

Prior period results have been restated to conform to the presentation format adopted in the current period.